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E.O. 12958: N/A

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SUBJECT: AmCham Presents Report on the State of Business in South China

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¶1. (SBU) SUMMARY: The American Chamber of Commerce in Guangdong recently released survey results that found that three-quarters of the participants -- who were engaged almost equally in providing goods and services -- have profitable operations in China. The production of goods or services for China, the U.S., or other markets was by far the most dominant company goal. Participating companies said they set up operations in the Pearl River Delta (PRD) -- as opposed to elsewhere in China -- primarily because of opportunities present in the region's domestic market. Ninety percent of the companies described the business climate in the PRD as good, very good, or outstanding, and the majority of participants predicted that their business would increase over the next three years. While nearly all participants said that Chinese government reforms had positively impacted U.S. business, Chinese regulatory issues were viewed as the biggest challenge to business growth in the next five years. More than three-quarters of companies said the region's shortage of low-skilled migrant workers has not affected them. Somewhat surprisingly, more than half of survey participants admitted they have not made plans to deal with a potential outbreak of avian influenza. While every post sees its share of frustrated business people, we presume that these positive results are fairly indicative of the healthy business environment in South China, and the success that U.S. business are having here.

¶2. (U) The American Chamber of Commerce in Guangdong (AmCham) recently hosted a press conference and a lunch presentation to promote its "report card" on the state of business in Guangdong and the Pearl River Delta (PRD). The report was based on their 2006 Business Climate Survey conducted among AmCham members and members of the Multinational Corporation Club of Guangzhou. A total of 161 businesses, representing a cross-section of foreign invested enterprises in South China, participated in the survey, carried out by Hewitt Associates from January 9-20, 2006. The following is a summary of some of the highlights of the

survey.

Who Were the Survey Participants?

13. (U) Half of the survey participants had more than ten years of experience operating in China. Thirty-seven percent had between 10-20 years of experience and 13% had more than 20 years of experience; one quarter of participants had less than five years of operating experience in China. The types of business activities in which participants were engaged is almost equally divided between goods (manufacturing/trade) (54%) and services (46%). While the size of these companies varied in terms of their global and China revenue, almost 38% of companies had global revenues of more than USD 500 million; roughly 31% had global revenues of less than USD 10 million. The size of participating companies in terms of the number of employees varied significantly, but the majority were at the extreme ends of the spectrum -- 29% had less than 50 employees while 27% had more than 1,000 employees. Almost half of participants had less than five expatriate workers. One half of the survey participants have parent/holding companies in the U.S.; eighteen percent have a parent/holding company in China; and the parent/holding companies of the rest are in diverse locations.

The Bottom Line and Top Priorities

14. (U) Fully three-quarters of participating companies said they currently had profitable operations in China. (Note: The report notes that this is a marked change from past

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surveys when many foreign-invested companies said their main goal was to become profitable in China. End Note.) The production of goods or services for China, the U.S., or other markets was by far the most dominant company goal among survey participants. Other important goals were to benefit from lower labor costs and to establish or expand a regional base.

15. (U) When asked why companies set up operations in the PRD -- as opposed to other China locations -- the top reason given was opportunities in the PRD's domestic market, which indicates that a strong local customer base exists for the majority of survey participants. Geographic proximity to Hong Kong was also listed as an important reason, as were lower productions costs, a better infrastructure as compared to other parts of China, and greater openness (not defined) compared to other parts of China. The availability of power, raw materials, and low-skilled labor were not listed as important reasons for setting up shop in the PRD, nor were the presence of other U.S. companies, the actions of competitors, or labor costs.

Business is Good Now, But How Does the Future Look?

16. (U) The vast majority (90%) of the participating companies described the business climate in the PRD as good/acceptable, very good, or outstanding; nearly 50% described the climate as very good or outstanding. The majority of participants predicted that their business would increase either somewhat or greatly in all dimensions over the next three years. The study also found that for 2006, roughly 60% of participants expected to make additional investments of up to USD 10 million. Over the next three years, nearly half expected to invest up to USD 10 million, with 20% saying they would invest between USD 10-50 million. When asked in which areas of China any likely expansion in the next three years would occur, 48% of companies said North China, 45% said the PRD, and 44% said the Yangtze River Delta.

¶7. (U) Almost all participants commented that Chinese government reforms (local, provincial, and central) in the past five years had had a positive impact on the climate for U.S. businesses in China; almost two-thirds of participants assessed the impact as great or very great. Despite this positive track record, Chinese regulatory issues are seen as the biggest challenge to business growth in the next five years. During the public introduction of the survey, Christian Doeringer from Hewitt explained that while business people found past government reforms to be positive, they are concerned about the uncertainty of potential implications for any new laws and the possible slowdowns that new laws could cause.

¶8. (U) The next biggest challenges companies faced were competition from local companies, lack of qualified managerial and specialist talent, and foreign competition. Commenting on concerns about the lack of talent, Doeringer noted that business people have told him they are frustrated by Guangzhou's lack of workers with the equivalent of vocational/technical school degrees who can perform as technicians. Somewhat surprisingly, IPR was not among the top five concerns, however nearly 30% of companies expressed some level of concern about the issue. AmCham president Harley Seyedin explained in the press conference that, in his experience, IPR is not a concern for all companies, but when it is a concern, it is a serious concern.

No Worker Shortage Here

¶9. (U) Seventy-eight percent of companies noted that they have not been affected by the reported general shortage of low-skilled migrant workers in the PRD. (Note: Econoffs

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often hear that U.S. and European companies tend to pay their employees more and provide better working conditions, allowing them to tap into the labor market with more success. End Note.) The one-quarter of companies that have been affected by labor shortages said they responded by increasing salaries and wages and improving other welfare benefits.

Too Busy Making Money to Plan for AI?

¶10. (U) From a Consular Services perspective, one interesting note from the survey is that slightly more than half of survey participants (55%) have not made plans to deal with a potential outbreak of avian influenza (AI). The Consulate has worked hard to conduct public outreach activities throughout the region to educate people about the need to prepare for AI, but these results indicate that the message, if it's being heard, is not being taken to heart. Given that Guangdong was the birthplace of the SARS outbreak, it is somewhat surprising that people here are not being more proactive in preparing for AI.

Comment: Just How Rose Colored Are Those Glasses?

¶11. (SBU) While AmChams around the world work hard to promote U.S. businesses abroad, the local AmCham office is particularly active and forward leaning in its efforts. The Chamber as a whole, and the president in particular, are extremely dedicated to their cause and are constantly "on-message" regarding their positive view of the business environment in South China. Indeed, AmCham's dedication was clearly reflected in the survey; more than 90% of participants rated AmCham as doing a good/acceptable, very good, or outstanding job.

¶12. (SBU) Econoffs often hear a less upbeat story from our contacts about the frustrations and hassles of operating in a very opaque business environment. We recognize that our

sampling may be skewed, however, in that usually only those people who are having problems seek us out for advice and/or assistance; people having no problems generally do not contact us to say that all is well. Given that reality, we can only assume that the AmCham survey results are, on the whole, fairly representative of the positive business environment in South China. It is certainly true that there is a lot of money being made in this corner of China, and based on these survey results, it appears that U.S. business has carved out a slice of that pie.

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